Monthly Economic Update & Outlook

OCTOBER 2020

Government of Pakistan
Finance Division
Economic Adviser's Wing

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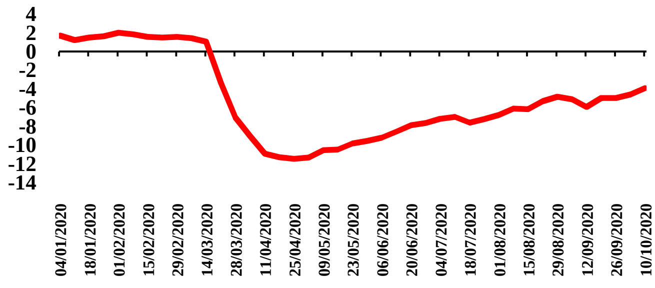
1. International Performance and Outlook

IMF has upgraded its outlook for 2020 by revising the global economic contraction to 4.4 percent, compared to its earlier forecast in June of contraction 5.2 percent. However, looking at the impact of the ongoing Coronavirus, the IMF reported that social distancing will continue in 2021, thus there will be slightly less growth 5.2 percent in 2021 (5.4 percent estimated in June).

In recent weeks, Europe and the US have experienced new waves of COVID-19 infections. In several of those countries, new partial lockdowns have been enforced. But so far, the economies of these countries have shown resilience.

The Weekly Economic Index (WEI) of the Federal Reserve Bank of New York is an index of 10 daily and weekly indicators of real economic activity, scaled to align with the four-quarter GDP growth rate in the US. This index continued its upward trend up to the latest available data point in mid-October 2020. But the current value of this index indicates that economic growth has not yet returned to pre-crises levels (Fig-1).

Fig-1: Growth in WEI (percent)

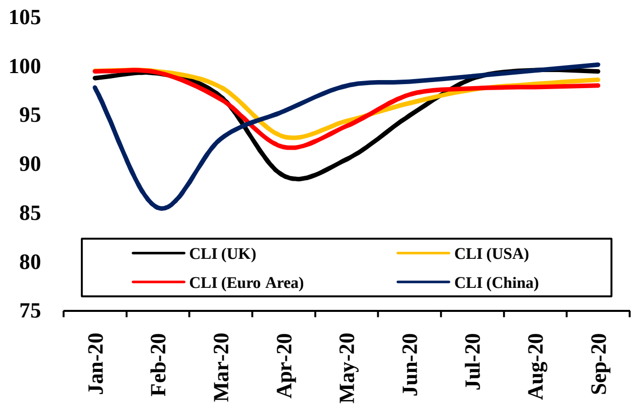


Source: Federal Reserve Bank of New York

Likewise, the Composite leading Indicators (CLI) compiled by the OECD for the Euro Area, US and China continued to improve in September.

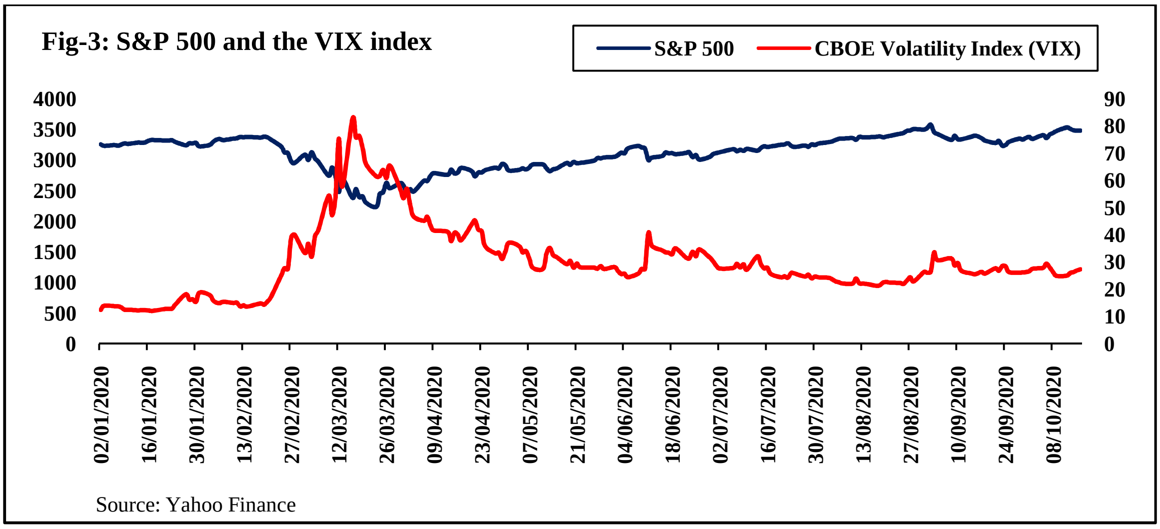
According to these leading indicators in Pakistan's most important export markets, the CLI has fully recovered from the pandemic-led recession in the UK and China only. In the US and the European Area, the CLI remained below pre-pandemic levels. The newly imposed precautionary measures in some of these countries may slow down their near-term economic recovery (Fig-2).

Fig-2: Composite leading indicators (CLI)



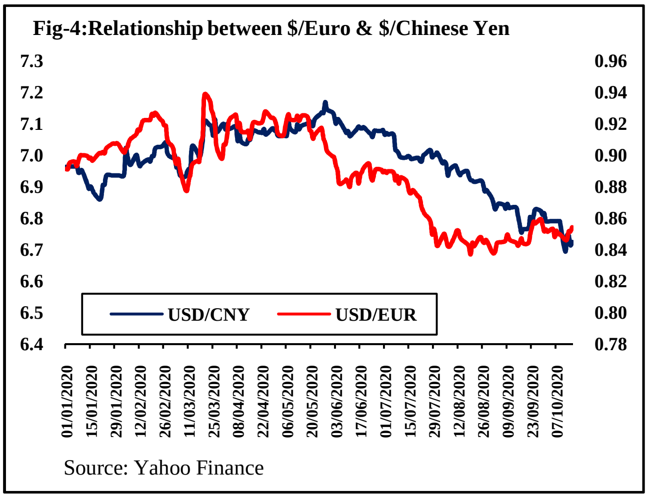
Source: OECD

The Chicago Board Options Exchange (CBOE) Volatility Index (VIX), which measures the implicit volatility in option prices and can be considered to be an indicator of investors' uncertainty, shows a higher average level in September and October as compared to August. The US stock market went into moderate correction during most of September, but tends to recover in October. The same pattern is shown by the Chinese stock market. In the Euro Area, the recovery has been slower than in some other parts of the world because these countries are currently experiencing new measures to contain the spread of the virus. Euro Area stocks do not show any trend since end of May and have not fully recovered from the September dip (Fig-3).



Information Handling Services (IHS) Markit, London–based global information provider released its final purchasing managers' indices (PMIs) for services in multiple countries. According to its latest update on October 23, 2020, U.S. Composite PMI Output Index posted 55.5 at the start of the final quarter of 2020, up from 54.3 in September and signaling the fastest increase in private sector business activity since February 2019. Further, business confidence picked up notably across the manufacturing and service sectors, signaling the greatest degree of confidence. In UK, private sector companies indicated another overall increase in business activity during October, but the rate of expansion slowed considerably since the previous month. This reflected a much weaker contribution from the service economy. Regarding Euro zone, business activity fell back into decline in October as accelerating growth of manufacturing output was overwhelmed by a steepening deterioration in the service sector amid rising COVID-19 worries. Germany was the only bright spot, as France and the rest of the region as a whole fell deeper into decline.

The differential paces of recovery are reflected in recent exchange rate movements. Since end September, the euro has lost strength against the USD, whereas the US currency further continued to weaken against the CHY (Fig-4).



Regarding International prices, energy prices fell 5.1 percent in September 2020, led by a 6.5 percent decline in crude oil. There was 2.4 percent increase in non-energy commodity prices while Agricultural prices gained by 2.7 percent. In the same month, Food prices increased by 3.5 percent mainly due to rise in oils and meals (+6.9 percent) and grains (+4.3 percent). However, Beverages and raw materials rose 1.8 percent and 0.9 percent, respectively. Fertilizer prices gained 1.2 percent, led by increases in Phosphate rock and Triple Super Phosphate (TSP).

Global economic outlook is still uncertain, though there is a high probability of economic recovery to pre-pandemic level in major trading partners of Pakistan.

2. Monthly Performance of Pakistan's Economy

There are downside risks to the outlook, with resurgence of the COVID-19 infection as being the major risk. Earlier, Locust attacks and heavy monsoon rains affected major and minor crops, disrupting food supply chain, thus built inflationary pressures. However, domestic economic activities started to recover, as lockdown measures were lifted and base effects materialized. Still, Pakistan's near-term economic prospects are promising. Significant uncertainty over the evolution of the pandemic and availability of a vaccine, demand compression measures to curb imbalances, along with unfavorable external conditions, all weigh on the outlook.

2.1 Real Sector

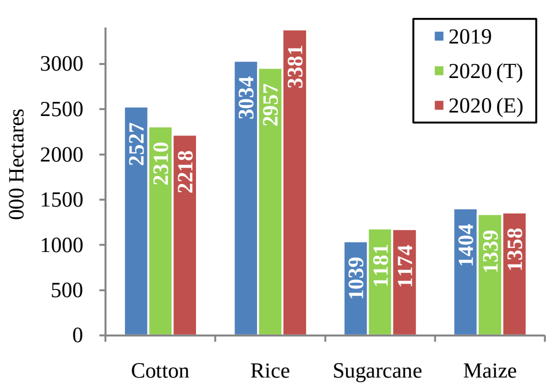
2.1-a Agriculture

Preliminary estimates of major Kharif crops during FY2021 reported that the production of sugarcane increased to 75.6 million tonnes from 66.4 million tonnes of last year's production showing an increase of 14 percent. Rice production estimated at 8.2 million tonnes, showing an increase of 10.4 percent over corresponding period of last year's production of 7.4 million tonnes. However, the preliminary estimates for cotton production remained low to 8.5 million bales showing a decline of 6.9 percent against last year's production level of 9.2 million bales due to decline in area under cultivation as well as unprecedented rains. Maize production estimated at 7.86 million tonnes, slightly declined by 0.3 percent compared to 7.88 million tonnes production of last year.

The menace of desert locusts has now been completely brought under control in the country. Total area surveyed during 2020 was 6,12,938 km^2 and total area controlled was 11,341 km^2. Out of 133 districts in Pakistan, locusts have not been reported in any district during the last one week. [27th SWAC-TOC Virtual Meeting on Locust Surveillance and Control (12th October, 2020)].

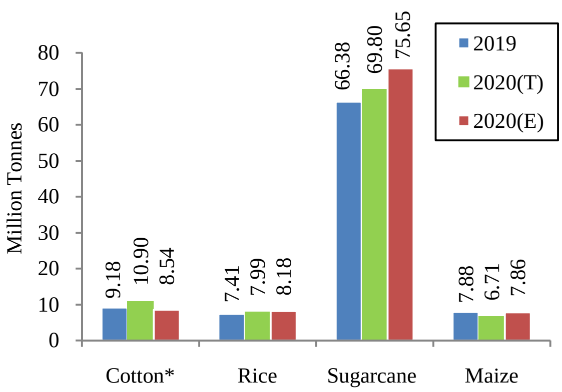
Fertilizer offtake during the Kharif 2020 remained higher compared to last year. Specifically, urea and DAP offtake rose by 0.8 percent and 22.0 percent respectively, compared to same season of last year. The total offtake of all fertilizers in this Kharif season was 4.307 million tonnes against 4.044 million tonnes estimates of Kharif 2019 with 6.5 percent increase.

Fig-5a: Kharif - Area of Important Crops



Source: FCA

Fig-5b: Kharif - Production of Important Crops

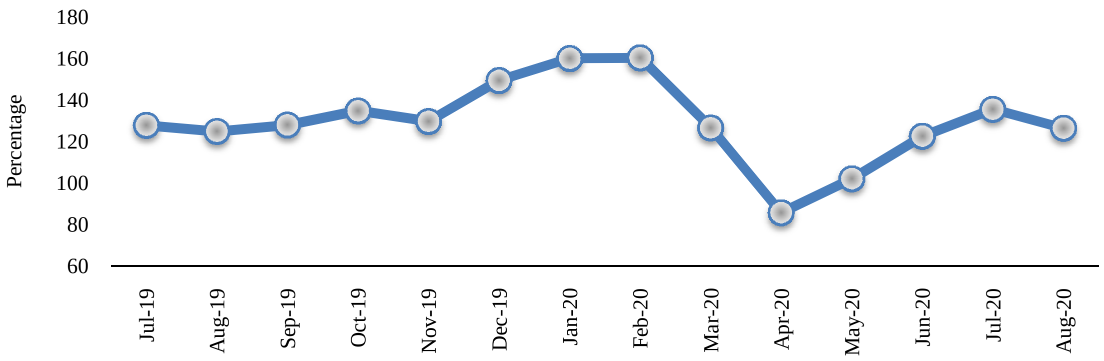


Soruce: FCA *: Million Bales

2.1-b Manufacturing

First two months of FY 2021 reflected a revival of economic activities in the country as LSM grew by 3.7 percent (-5.9 percent during July-August FY 2020). YoY LSM increased by 1.2 percent in August FY 2021 (-6.1 percent August FY 2020). However, heavy rains restricted manufacturing activities in August 2020 and LSM plunged to -6.8 percent on MOM basis (10.7 percent July 2020). During July-August FY 2021, production data of LSM from the Oil Companies Advisory Committee (OCAC) comprising 11 items, Ministry of Industries 36 items and Provincial Bureau of Statistics 65 items, have recorded increase of 0.34 percent, 1.96 percent and 1.37 percent respectively.

Fig-6: LSM Index



Source: Pakistan Bureau of Statistics

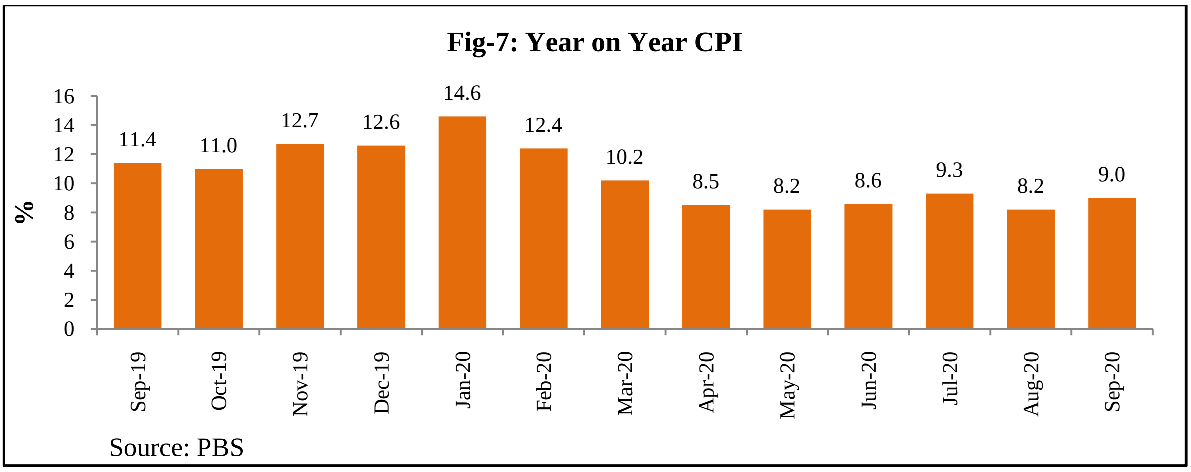
During July-September FY2021, total cement dispatches in the country jumped by 22 percent to 13.6 million tonnes (11.1 million tonnes last year). Domestic dispatches increased by 18.8 percent to 10.8 million tonnes in July-September FY 2021 (9.1 million tonnes last year). Exports went up 35.7 percent to 2.7 million tonnes (2.0 million tonnes last year).

In August FY 2021, on YoY basis, Textile having the highest weight in LSM increased by 2 percent and Food Beverages & Tobacco, the second major subsector, increased by 8.3 percent. On MoM basis, Leather products, wooden products, fertilizers, chemicals and engineering products grew by 27.3, 16.7, 9.5, 1.1 and 0.3 percent respectively. While other subsectors including Textile, Food Beverages & Tobacco, Automobile and Non-metallic Mineral Products dipped by 0.01, 6.0, 8.7 and 25.5 percent, respectively on MoM basis.

During July-September FY2021, total car sale increased by 2.7 percent while production plunged to 23.8 percent. However, on MoM basis in September FY2021, production and sale increased by 68.8 and 19.9 percent respectively, while on YoY basis, total trucks & buses production and sale increased by 7.1 and 45.8 percent respectively.

2.2 Inflation

The Consumer Price Index (CPI) based monthly inflation increased by 9.0 percent on YoY basis in September 2020 as compared to 11.4 percent in the same month of last year. On MoM basis, it increased by 1.5 percent in September 2020 as compared to an increase of 0.6 percent in the August 2020. The CPI during July-September FY 2021 recorded 8.8 percent as against 10.1 percent during the same period last year.



CPI increase due to the abnormal spike in the prices of perishable items. The spike witnessed in prices of tomatoes and onion on account of crops damaged due to heavy rains/flood. It is a temporary phenomenon; the price trend will be ease out in November once the local production starts arriving in the market. Sensitive price Indicator (SPI) monitors the price movement of 51 essential items on a weekly basis, for the week ended on 22nd October 2020, decreased by 0.23 percent. The inflation rates of some selected countries during the current fiscal year FY2021 are given below:

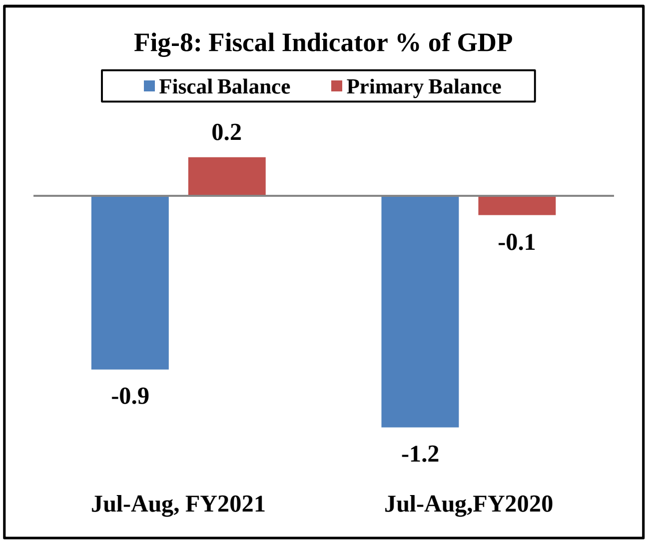
Inflation rate selected Countries

Month	Pakistan	India	Bangladesh	Iran	Uzbekistan	Turkey
Jul-20	9.3	6.7	5.5	26.9	14.4	11.8
Aug-20	8.2	6.7	5.7	30.4	11.7	11.8
Sep-20	9.0	7.3	6.0	34.4	11.7	11.8

Source: Central Bank of Bangladesh, Ministry of Statistics and Program Implementation India, Pakistan Bureau of Statistics and Trading Economics

2.3 Fiscal

Under Government's unprecedented measures to mitigate the impact of pandemic and to revive economic activity, the fiscal sector has witnessed a substantial improvement during the first two months of FY2021. The fiscal deficit during July-August, FY2021 stood at 0.9 percent of GDP, showing a significant improvement over the same period last year when it was recorded at 1.2 percent of GDP. Similarly, primary balance posted a surplus of Rs 69 billion (0.2 percent of GDP) during July-August, FY2021 against a deficit of Rs 55 billion (-0.1 percent of GDP).



Higher non tax revenues helped the government to reduce the fiscal deficit to Rs 415 billion during July-August, FY2021 against Rs 499 billion in the comparable period of last year. Non tax revenues grew by 71 percent to reach Rs 156 billion in the first two months of current fiscal year against Rs 91 billion last year.

FBR Tax Collection

FBR has performed remarkably well as it has surpassed the tax collection target of Rs 970 billion set for the first quarter of current fiscal year by Rs 34.1 billion. Provisional tax collection stood at Rs 1,004.1 billion during July-September, FY2021 against Rs 959.1 billion in the same period of last fiscal year, thus grew by 4.7 percent. First quarter of FY2021 has witnessed 5.8 percent growth in domestic tax collection. Within domestic, direct taxes grew by 4.2 percent, sales tax by 6.4 percent while FED increased by 12.4 percent. On the other hand, customs duty declined by 1.3 percent. Similarly, Rs 70.1 billion refunds have been issued during the first quarter of current fiscal year against Rs 44.6 billion in the comparable period of last year. It has provided significant support in the revival of economic activity in the country.

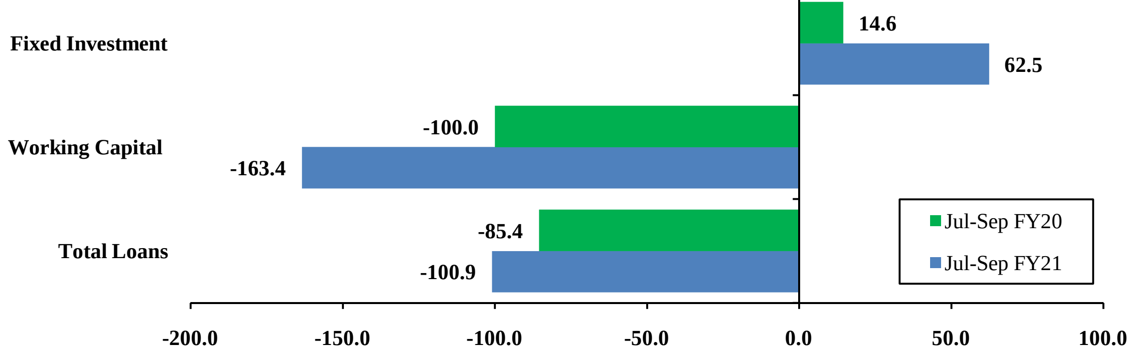
2.4 Monetary

During 1st July - 2nd October, 2020, Broad Money (M2) witnessed a cumulative expansion of Rs 103.4 billion (growth of 0.5 percent) against Rs 28.7 billion (growth of 0.2 percent) last year. The contributor in the growth of money supply is Net Foreign Assets (NFA) which stood at Rs 289.1 billion compared to Rs 233.4 billion last year. Within NFA, NFA of the SBP expanded by Rs 125.3 billion compared with Rs 187.8 billion last year. NFA of the scheduled banks increased by Rs 163.8 billion against Rs 45.6 billion last year. Net Domestic Assets (NDA) of the banking system contracted by Rs 185.7 billion compared to contraction of Rs 204.7 billion last year. This was driven by lower budgetary borrowing from scheduled banks, more than seasonal retirement by Private Sector Credit and Commodity Operation financing.

NFA point contribution in M2 remained 1.37 percent compared to 1.30 percent last year. Whereas, NDA point contribution decreased to 0.88 percent against -1.14 percent last year. Expansion in NFA of banking system partially offset by contraction in NDA.

The Private Sector Credit (PSC) witnessed the retirement of Rs 122.4 billion as compared to the retirement of Rs 49.4 billion last year. Private sector credit demand remained muted primarily for working capital requirement in the wake of surplus inventories particularly the manufacturing concern. Borrowing of the textile sector (one of the major subsectors of manufacturing) remained subdued due to enough liquidity received in the form of tax refunds in the wake of lockdown. Moreover, credit requirement will start picking up from October – November, after the arrival of cotton in the market. Fixed investment loans increased during the period under review compared last year, primarily driven by activities in textile, energy and construction sector.

Fig-9: Loans to Private Sector Businesses Rs Billion



2.5 External Sector

In September 2020, Current Account remained in surplus ($73 million) for third consecutive month, it was last happened in 2004. Thus, Current Account posted a surplus of $792 million (1.2 percent of GDP) during Q1 FY2021 against a deficit of $1492 million last year (2.3 percent of GDP). On MOM basis, exports increased by 29.2 percent to $1.95 billion during September 2020 as compared with $1.5 billion in August 2020. On YoY basis, exports increased by 3.8 percent to $1.95 billion during September 2020 as compared with $1.879 billion in September 2019 while Exports during Q1 FY2021 decreased by 10.5 percent to $5.358 billion as against $5.985 billion last year.

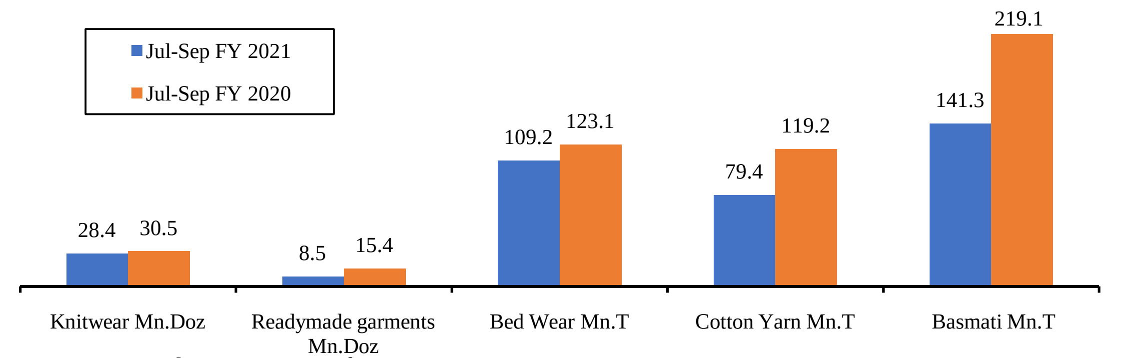
The government lifted the ban on exports of seven products classified as personal protective equipment (PPE) in a bid to allow manufacturers to honour international orders. Exports are expected to recover in the coming months owing to resumption of economic activities in the top export destinations for Pakistani goods.

The total imports in July-September FY2021 stood at $10.6 billion against $11.0 billion last year, thus decreased by 3.8 percent. Consequently, trade deficit increased by 4.0 percent to $5.25 billion during July-September, FY2021 as compared to $5.0 billion last year.

The textile sector exports (63 percent share in total exports) increased by 2.9 percent in value over the last year. Value added exports (40.4 percent share in total exports) increased by 8.2 percent (value). The quantities of value-added exports have gone down in double digits. The higher unit price of the value added has provided some support to declining exports of textile.

The Petroleum group (share of 20.6 percent in total imports) decreased by 26.5 percent (value), of which import of petroleum crude decreased by 15.9 percent (value) and increased by 30 percent (quantity).

Fig-10: Major Exports in terms of Quantity in (MnT/Mn Doz)



Source: Pakistan Bureau of Statistics

Fig-11a: Imports Value

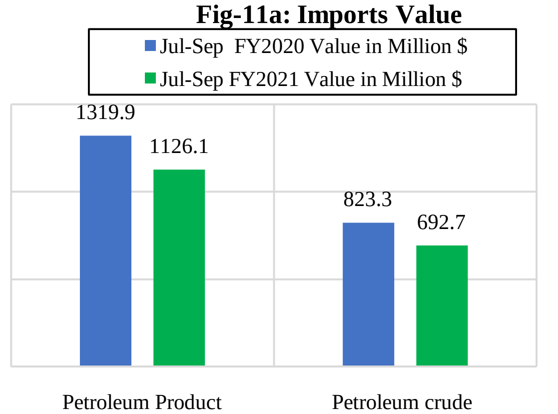
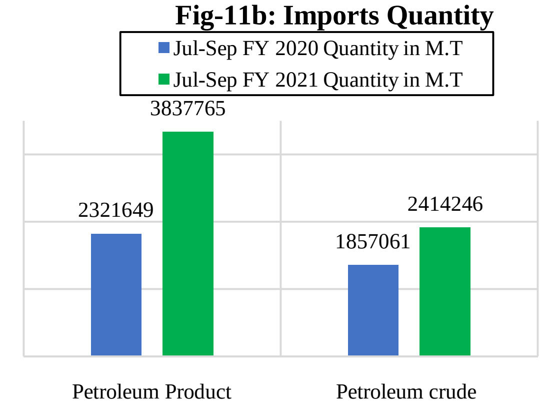
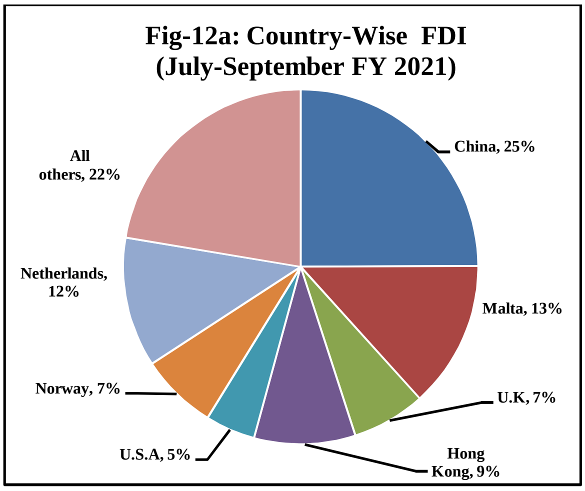


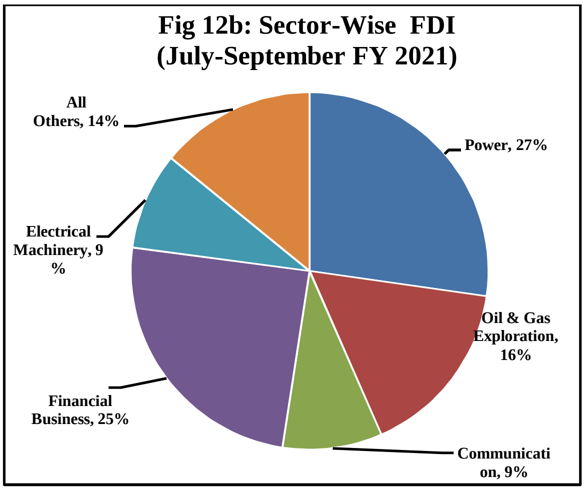
Fig-11b: Imports Quantity



Source: Pakistan Bureau of Statistics

FDI increased by 68.2 percent to $189 million on MoM basis in September 2020 against $ 112.3 million in August 2020. On YoY basis, FDI decreased by 50.7 percent during September 2020 and reached to $ 189 million as compared to $ 383.5 million in September 2019. During July-September FY2021, FDI decreased by 23.8 percent and reached to $ 415.7 million as compared to $ 545.5 million last year.

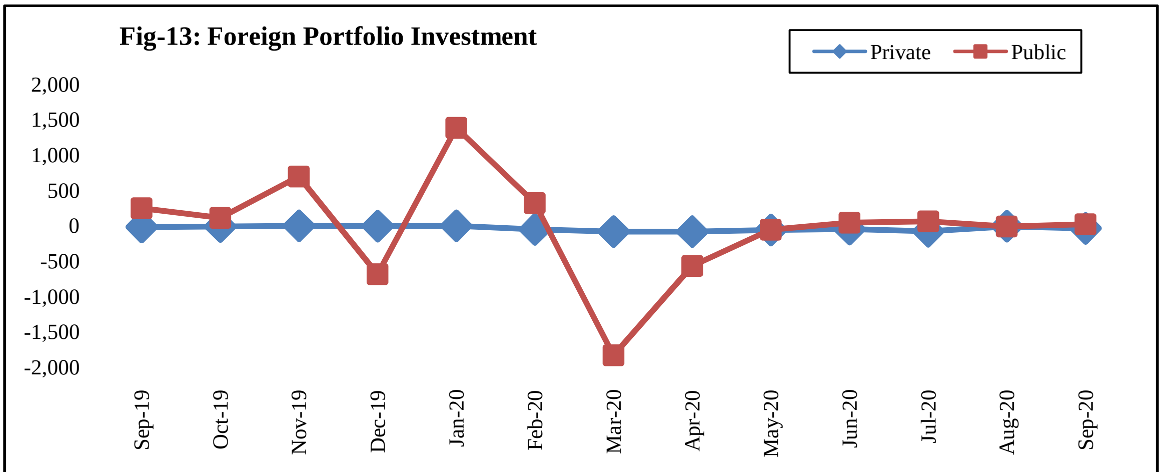




Source: State Bank of Pakistan

2.5.1 Foreign Portfolio Investment

Foreign Private Portfolio Investment recorded a net outflow of $32.2 million in September 2020 and a net outflow of $ 108.5 million during July-September FY2021. Countries with major inflows are UAE ($52.1 million) and Singapore ($ 5.5 million). While outflows destinations were UK ($ 85.3 million), US ($ 68.9 million) and Luxembourg ($ 19.5 million). The total foreign portfolio investment recorded an outflow of $ 26.8 million during July-September FY2021 as against inflow of $ 344.5 million last year. Foreign Public Portfolio Investment registered a net inflow of $21.9 million in September 2020. The trend of FPI is depicted below:



Source: State Bank of Pakistan

2.5.2 Worker's Remittances

During July-September FY2021, remittances rose to $ 7.1 billion against $ 5.4 billion last year, with a growth of 31.1 percent. On YoY basis, remittances increased by 31.2 percent in September 2020 to $2.3 billion ($ 1.7 billion in September 2019). On MoM basis, remittances increased by 9.0 percent in September 2020 to $2.3 billion ($ 2.1 billion in August 2020). Share of remittances from Saudi Arabia is 29.1 percent ($ 2080.5 million), U.A.E 19.9 percent ($ 1420.8 million), USA 8.9 percent ($ 632.6 million), U.K 13.8 percent ($ 985.5 million), other GCC countries 11 percent ($ 784.4 million), Malaysia 0.8 percent ($ 56.3 million), EU 8.4 percent ($ 601.4 million) and other countries 8.1 percent.

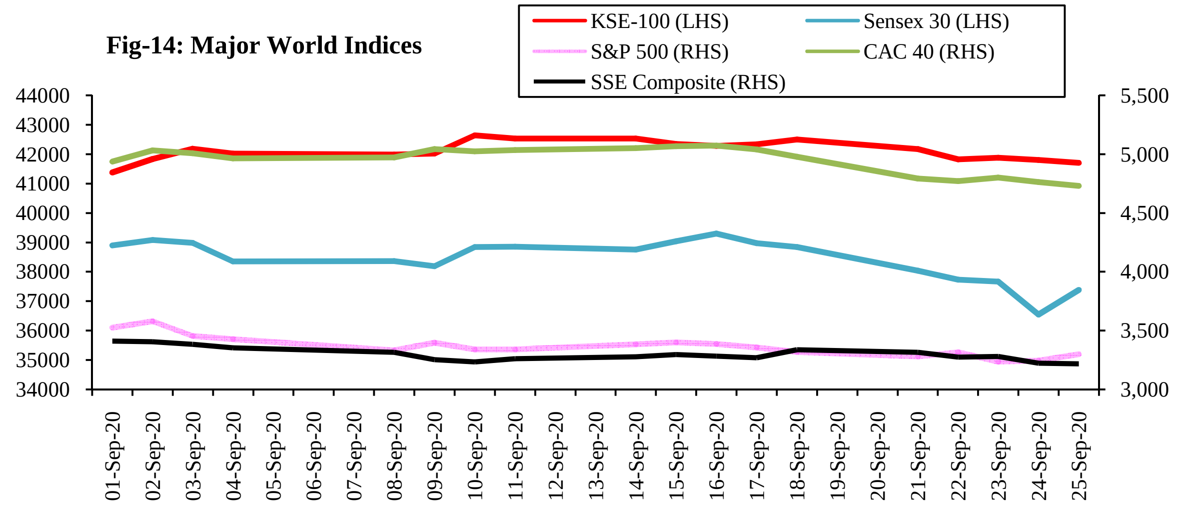
2.5.3 Foreign Exchange Reserves

Pakistan's total liquid foreign exchange reserves increased to $19.3 billion by the end of September 2020, up by $4.1 billion over end-September 2019. The breakup of reserves accumulation in September 2020 shows that the SBP's reserves stood at $12.1 billion ($7.9 billion last year) and $7.2 billion ($7.3 billion last year) in commercial banks' reserves. The present reserves level provides the import cover of around 3 months.

2.6 Performance of KSE Index

After five months of continuous growth, Pakistan Stock Exchange (PSX) lost its upward trend momentum in September 2020. The KSE-100 index shed 539 points (1.3 percent) to close at 40,571 points on 30th September 2020. Market capitalization lost Rs 7.2 billion (0.09 percent) and settled at 7,643 billion on 30th September 2020. The figure below shows that major world indices have also shown a downward trend in September 2020.

Fig-14: Major World Indices



Source: Pakistan Stock Exchange & Investing.com

2.7. Social Sector

- Under Ehsaas Emergency Cash Program till 23-10-2020, Rs 179.2 billion has been disbursed to 14.8 million beneficiaries while new target is 16.9 million beneficiaries against the allocation of Rs 203 billion. Cash payments under the program to the families of dead beneficiaries and with biometric failures will continue till 30-10-2020.
- Under Kamyab Jawan Youth Entrepreneurship Scheme, Rs 1,116 million has been disbursed till August 2020 to the youth for various businesses.
- During September 2020, Bureau of Emigration and Overseas Employment has registered 1,326 Pakistanis for employment in different countries.
- Overseas Pakistanis Foundation has received 250 applications of the destitute families of overseas Pakistanis out of which 114 cases have been approved and an amount of Rs 46

million has been disbursed, whereas remaining 136 cases are under process for disbursement.

- During September, 4,214 returnees have registered themselves on OEC's 'Online Job Portal for Overseas Employment and Reintegration'. The data has been shared with all stakeholders including OPF, NAVTTC, BISP, SMEDA, BE&OE with a request to facilitate the returnees as per mandate of the respective Organizations.
- Government has allocated Rs 33 billion for payment of markup subsidy for affordable housing finance over a period of 10 years. For this purpose, Finance Division, Government of Pakistan and State Bank have signed a memorandum of understanding.

National Poverty Graduation Programme

- It aims to assist the ultra-poor including women by transferring livelihood assets and providing trainings to 176,877 households in 23 districts of 4 provinces of Pakistan.
- Since inception till 30th September 2020, 30,249 livelihood productive assets have been transferred to the ultra-poor while during the month of September, 287 livelihood assets were distributed out of which over 96 percent assets were transferred to the woman.
- PPAF through its 24 Partner Organizations has disbursed 56,183 interest free loans amounting to Rs 1,925 million during the month of September 2020. Since inception till 30th September 2020, a total of 950,103 interest free loans amounting to Rs 32.74 billion have been disbursed to the borrowers.

PPAF COVID-19 Economic Revival Programme

- Under this programme, PPAF has partnered with 19 organizations and covers 109 Union Councils in the 19 poorest districts across Khyber Pakhtunkhwa, Balochistan and Sindh.
- Since inception till 30th September 2020, a total of 62,056 households have received economic revival assistance in the form of livestock fodder, food packages, agricultural inputs, emergency interest free loans, small enterprise and kitchen gardening. During September 2020, 5821 households who received economic revival assistance.

Health Services

- 40 laboratories in the major cities across the country have been designated to support COVID diagnostics, and are undergoing trainings to collect the samples from suspected cases on bio-safety and bio-security standards.
- 769 Public and Private Hospitals in all major cities and 154 districts of Pakistan are engaged for COVID management and isolation capacity has also been increased. Regular oxygen supply is being ensured for the large number of COVID positive requiring low or high flow oxygen.
- 29,700 beds are currently allocated for COVID patients, 3,061 ventilators are available for serious cases of which 25 percent are currently occupied, while 1,401 non-COVID vents can potentially be used for surging capacity.
- Till 16-10-2020, Rs 6.8 billion out of allocation of Rs 14.5 billion has been authorized for the execution of 52 development projects in FY 2021 to Ministry of National Health Services, Regulations & Coordination.

Education

- Registration of Deeni Madaris has been started through massive media campaign all over the country. During September 2020, 100 Madaris have been registered.
- Rs 4.5 billion has been allocated for 28 development projects of Ministry of Federal Education and Professional Training. Out of which Rs 2.24 billion has been authorized till 16th October, 2020.
- M/o Federal Education & Professional Training is working on the development of detailed implementation plan and budget for two major World Bank-funded programs on Education Response, Recovery, and Resilience to COVID crisis.
- Rs 29.5 billion for 113 on-going and 31 new development projects of HEC has been allocated and Rs 14.03 billion has been authorized to HEC till 16th October, 2020.

3. Economic Outlook

Economic recovery has been observed from the start of the new fiscal year. Most importantly the decrease in number of Corona virus cases and the resumption of economic activities have contributed in dampening the negative impact of health crisis on the economy. Economic recovery was seen in Q1 FY2021 and it is expected that this trend will continue but fears and risk factors are appearing due to the possible second wave of COVID.

3.1. Inflation

Usually main drivers of the consumer price index are international commodity prices, especially food and oil products, the exchange rate, growth of broad money and the policy interest rate. However, in Pakistan most recently, CPI remained driven by higher food prices, while non-food inflation remained moderated. Supply disruption in food related commodities was mainly due to extended monsoon season which has built inflationary pressure. In recent weeks, the international food prices have rebounded somewhat, whereas oil prices declined and the PKR exchange rate slightly appreciated against the USD, thus easing out inflationary prospects.

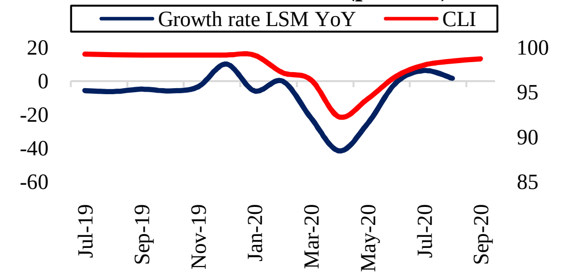
There is no change in Indirect tax or other fiscal measures. Likewise, interest rate is kept same as per the policy interest rate in July 2020. Thus, accommodative Fiscal and Monetary Policy helped in controlling core inflation. The government is making all efforts to control inflation by smoothing supply even by expediting imports of sugar and wheat, which are considered as essential food commodities. On weekly basis, impact can be predicted from decline of 0.23% in SPI on 22nd October 2020. This decline occurred after seven weeks. On the basis of current economic scenario, headline inflation is expected to remain within a range of 7.3 to 9.3 percent in October 2020.

3.2. Agriculture

Earlier, torrential rains during August 2020 have damaged cotton crop. Thus, its preliminary estimates are showing a decline of 6.9 percent against last year's production level. However, in recent data given by FCA in its meeting on 22nd October, 2020, there is significant improvement in the production of rice and sugarcane. Rice production is showing an increase of 10.4 percent, while that of sugarcane posted an increase of 14 percent over production in last year. There is slight decline of 0.3 percent in Maize production. Therefore, prospects for crop sector growth are encouraging. Similarly, livestock will benefit from green pasture and is expected to post healthy growth. Thus, Agriculture sector is expected to achieve its growth target of 2.8 percent quite easily.

3.3. Industrial activity

Fig-15: Relationship between CLI and LSMI Growth rates (percent)



Source: OECD, PBS

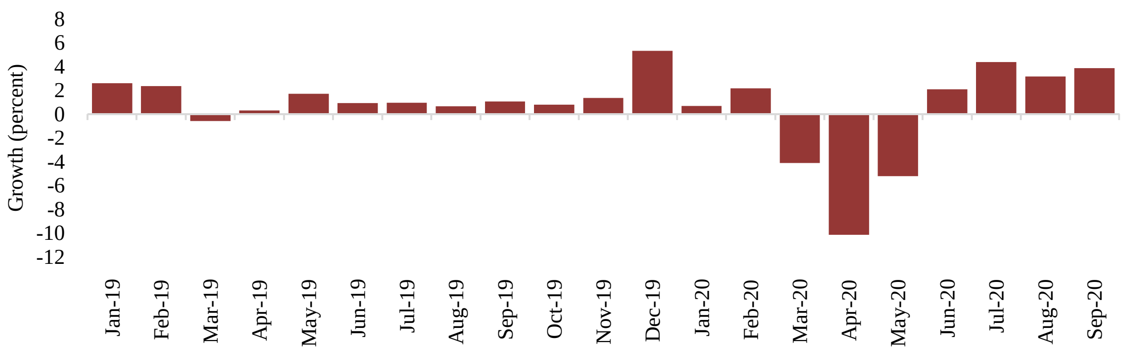
Industrial activity, measured by the LSM index, is vulnerable to external conditions. Its exposure to developments in international markets, is illustrated in Fig-15 which compares the YoY growth rate of LSM with the weighted average Composite Leading Indicators in Pakistan's main export markets (CLI). LSM index is published with a time lag of around two months, whereas CLI is published with a one-month lag. In August 2020, the LSM index increased by 1.2 percent compared to August 2019. The positive growth in LSM is coherent with the further economic expansion in the main trading partners, and with the deceleration of the strength of that expansion as shown by the somewhat flattening CLI.

The CLI moved further upwards in September and also LSM is expected to show positive YoY growth, unless climatologically or other disturbances negatively impact industrial production. In any case, there is ample growth of liquidity in the Pakistan economy.

3.4. Overall economic activity

Obtaining a useful indicator of ongoing overall economic activity is extremely important for policy purposes. The Monthly Economic Indicator (MEI) is based on combining monthly data of indicators that are proven to be correlated with GDP at constant prices. The MEI is scaled to align with annual GDP growth. It is a so-called global method, implying that changing any point or adding points to the series will affect all points in the indicator (the same is the case with other international indicators such as the CLI calculated and published by the OECD). Fig-16 presents the MEI on monthly basis since January 2019. It should be noted that some of the data underlying the September MEI are still provisional and may be revised next month. But based on available data, the MEI shows persistent growth in September, in continuation with the trend observed in the previous two months. It follows that economic growth in the first quarter of FY 2020-21 has shown persistent recovery.

Fig-16: Monthly Economic Indicator (MEI)



Source: EAW calculations

3.5. External

In the first quarter of the current fiscal year, both exports and imports have been recorded under their respective levels in the corresponding quarter of the previous fiscal year. Climatologically circumstances may have played a role in the observed export and import activity.

In October, following the rebound in economic growth in Pakistan, imports may re-join their level recorded last fiscal year. On the other hand, it may be expected that exports will still lag somewhat since economic activity in most of the trading partners has not yet fully recovered. Exports of goods and services in October may come in at around $ 2.7 billion while imports may reach around $ 4.3 billion. As a consequence, the deficit in goods and services may remain roughly stable when compared to September 2020.

In the first quarter of FY2021, remittances in USD were 31 percent higher than in the corresponding quarter of FY 2020. It is expected that the pattern will continue in October as well due to the policy measures that have positively affected the channels of remittances transfers. Further, remittances inflows are expected to remain higher than the trade deficit in goods and services.

3.6. Fiscal

The continuation of fiscal consolidation efforts has paid off in terms of reducing fiscal deficit to 0.9 percent during the first two months of FY2021 against 1.2 percent last year. Similarly, the primary balance has been kept in surplus. Higher collection under non-tax revenues provided significant support to contain the fiscal deficit on lower side, while FBR tax collection surpassed its target set for Q1, FY2021. Therefore, fiscal deficit was contained within the target set for Q1, FY2021. Keeping in view the encouraging growth in FBR tax revenue collection during the first quarter of FY2021, and significant rise in non-tax revenues, it is expected that both will maintain its pace in the second quarter as well. Thus, it is expected that Fiscal deficit will remain as per targeted for Q2 FY2021 as well, however, the risk of high public spending due to COVID-19 may build pressure on expenditure in Q2 FY2021.

4. Way Forward

Based on high frequency indicators, summarized in the MEI, economic growth is showing persistent recovery in Q1 FY2021. In absence of any adverse future shocks, the economy is on its way not only to rebound from the pandemic related crises, but also to record a reasonable growth rate for the full fiscal year.

Presently, inflation is one of the main challenges. However, the government is taking all possible measures to control it. Together with measures that ensure sufficient supply of goods, especially food related production, it is expected that inflation will remain under control whereas policy measures will contribute to better functioning markets.

Most importantly, although domestic economic activity is expected to recover, still the risk of pandemic attack persists if the SoPs are not fully followed. Thus, Pakistan's near-term economic prospects are promising subject to reducing uncertainty and restoring business confidence.

Economic Indicators (26-10-2020)

	2019-20 (Jul-Sep)	2020-21 (Jul-Sep)	percent Change
External Sector			
Remittances($ bn)	**5.5**	**7.1**	↑ **31.1**
Exports ($ bn)	**6.0**	**5.4**	↓ **10.5**
Imports ($ bn)	**11.0**	**10.6**	↓ **3.8**
Trade Deficit ($ bn)	**5.0**	**5.3**	↑ **4.0**
Current Account Balance ($ bn)	**-1.5**	**0.8**	↑
Current Account Balance (percent of GDP)	**-2.3**	**1.2**	↑
FDI ($ mn)	**90.9** (Aug)	**112.3** (Aug)	↑ **23.5**
	383.5 (Sep)	**189.0** (Sep)	↓ **50.7**
	545.5	**415.7**	↓ **23.8**
Portfolio Investment-Private($ mn)	**2.4** (Aug)	**-3.1** (Aug)	↓
	-13.6 (Sep)	**-32.2** (Sep)	↓
	22.7	**-108.5**	↓
Portfolio Investment-Public ($ mn)	**321.8**	**81.7**	↓**74.6**
Total Foreign Investment ($ mn) (FDI &Portfolio Investment)	**890.0**	**388.9**	↓ **56.3**
Forex Reserves ($ bn)	**15.139** ***(SBP: 7.932)*** ***(Banks: 7.207)*** (On 23rd Oct 2019)	**19.296** ***(SBP: 12.121)*** ***(Banks: 7.175)*** (On 23rd Oct 2020)	
Exchange rate (Rs/US$)	**155.89** (On 23rd Oct 2019)	**161.27** (On 23rd Oct 2020)	

Source: SBP

(Rs bn)

	2019-20 Jul-Aug	2020-21 Jul-Aug	% Change
Fiscal			
FBR Revenue	**959.1** (Jul-Sep)	**1004.1** (Jul-Sep)	**↑ 4.7**
Non Tax Revenue	**91**	**156**	**↑ 71.4**
Expenditures	**1040**	**860**	**↓ 17.3**
PSDP (Authorization)	**257.2** (1st Jul to 25th Oct)	**289.7** (1st Jul to 23rd Oct)	**↑12.6**
Fiscal Deficit	**499**	**415**	**↓16.8**
Monetary Sector			
Agriculture Credit (provisional) (FY19 vs FY20)	**1174.0**	**1214.7**	**↑ 3.5**
Credit to private sector (Flows)	**-28.3** (1st Jul to 18th Oct)	**-110.6** (1st Jul to 16th Oct)	
Growth in M2 (%)	**0.06** (1st Jul to 18th Oct)	**0.01** (1st Jul to 16th Oct)	
Policy Rate (%)	**13.25** (w.e.f 16-Sep-19)	**7.00** (w.e.f 22-Sep-2020)	

Source: SBP & FBR, Budget Wing

	2019-20	2020-21	% Change
Inflation			
CPI (National) (percent)	**11.4** (Sep)	**9.0** (Sep)	
	10.08 (Jul-Sep)	**8.84** (Jul-Sep)	
Real Sector			
Large Scale Manufacturing (LSM) (percent)	**-6.1** (Aug)	**1.2** (Aug)	
	-5.9 (Jul-Aug)	**3.7** (Jul-Aug)	
Miscellaneous			
PSX Index*	**34889** (On 1st Jul 2020)	**41266** (On 23rd Oct 2020)	**↑ 18.3**
Market Capitalization (Rs trn)	**6.61** (On 1st Jul 2020)	**7.65** (On 23rd Oct 2020)	**↑ 15.7**
Market Capitalization ($ bn)	**39.33** (On 1st Jul 2020)	**47.39** (On 23rd Oct 2020)	**↑ 20.5**
Incorporation of Companies	**4124** (Jul-Sep)	**6149** (Jul-Sep)	**↑ 49.1**

Source: PBS, PSX & SECP *: Formerly Karachi Stock Exchange (KSE)